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Merchant fleet development

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INTRODUCTION

(i) At its third session, the United Nations Conference on Trade and Development expressly recognized "that developing countries should have an increasing and substantial participation in the carriage of maritime cargoes ..".1/ Subsequently the Committee on Shipping, at its eighth session, reviewed the situation and concluded that past efforts by developing countries to develop their merchant marines had not been successful to the extent desirable. The Committee noted with concern the present low position of the fleets of developing countries, in particular among the tanker and bulk carrier fleets, and requested the UNCTAD secretariat to prepare a set of guidelines to increase the competitiveness of the merchant fleets of developing countries, especially in the dry and liquid bulk sectors. 2/ More recently, the Ad hoc Intergovernmental Working Group on the Economic Consequences of the Existence or Lack of a Genuine Link between Vessel and Flag of Registry concluded, inter alia, that the competitiveness of the fleets of developing countries was being adversely affected by the expansion of the open-registry fleets (or so-called flag-of-convenience fleets). 3/ At its eighteenth session the Trade and Development Board took note of the report of the Ad hoc Group and requested the Secretary-General of UNCTAD to transmit the report to the Conference at its fifth session. 4/

(ii) The present report discusses the policy issues involved in the development of merchant fleets. Statistical tables indicating the involvement of developing countries in movements of bulk cargoes are to be found in document TD/222/Supp.2.

1/ Conference resolution 70 (III), para.10.

2/ See Official Records of the Trade and Development Board, Seventeenth Session, Supplement No.3 (TD/B/643), annex I, resolution 28 (VIII), para.1. The guidelines are being prepared by the secretariat.

3/ Report of the Ad hoc Intergovernmental Group on the Economic Consequences of the Existence or Lack of a Genuine Link between Vessel and Flag of Registry (TD/B/C.4/177), annex.

4/ See the report of the Trade and Development Board on its eighteenth session (TD/B/728), paragraph 446. (The report will be issued subsequently in Official Records of the General Assembly, Thirty-Third Session, Supplement No. 15 (A/33/15, vol.II).

Chapter I

THE ISSUES

1. The low participation of developing countries in world shipping reflects the manner in which economic institutional arrangements are structured so as to maintain control over activities in this field by the shipowners and transnational corporations of a small group of developed market-economy countries. Developing countries export 61 per cent of world seaborne cargoes, but they own less than 8 per cent of the world fleet. The contrast is particularly marked in the bulk trades where developing countries export 90 per cent of tanker cargoes and over one third of the main dry bulk cargoes, yet own less than 6 per cent of the world fleet of tankers and bulk carriers.

2. The traditional maritime nations have conceded the right of developing countries to participate in the liner trades, 5/ which account for 20 per cent of world cargoes, but, except in very general and indirect terms, 6/ they have not recognized the rights of developing countries to participate in the world bulk trades, which account for 80 per cent of world cargoes, and in practice many developed market-economy countries (which are the main importers of bulk cargoes) appear to treat their developing trading partner countries (which are mainly exporters) as if they had no rights to participate in this transport. In fact, world bulk transport is dominated by developed market-economy countries, which own no less than 90 per cent of the world bulk fleet.

3. The complex nature of international bulk shipping would make it difficult to evolve any single principle to govern rights in relation to transport. Certain cargoes move on a regular basis and offer constant employment for tankers and bulk carriers plying on shuttle services between trading partner countries, and such cargoes could be transported by vessels flying the flags of the trading countries. Other cargoes are shipped irregularly and must necessarily be transported in vessels which engage in general worldwide trading. However, there would appear to be no valid reason why the transport of both types of cargoes should continue to be dominated by shipowners and transnational corporations of developed market-economy countries.

5/ See United Nations Conference of Plenipotentiaries on a Code of Conduct for Liner Conferences, vol.II, Final Act (United Nations publications, Sales No. E.75.II.D.12).

6/ See Conference resolution 12 (II), para.1; Conference resolution 70 (III), paras.8 and 10; and General Assembly resolution 3202 (S-VI), section 4, para.(e).

4. The developed market-economy countries not only dominate the transport of a much greater tonnage than they generate by their own trade, but maintain their domination despite their increasing inability to supply the shipboard labour which is one of the critical inputs of bulk shipping. Logically, their shipowning corporations might have been expected to transfer some of their investments in order to establish shipping companies in the developing countries that can provide the necessary labour, but instead they use cheap labour from the world's poorer countries and at the same time to retain complete ownership and control of the vessels through the device of registering ships under "flags of convenience", without giving an equitable share in the benefits of shipping operations either to the countries which provide the flags or to the countries which provide the labour. In recent years there has been a steady transfer of shipping operations from the flags of developed market-economy countries to the flags of open-registry countries, to the point where a third of the world's fleet is now sailing under flags of convenience.

5. Flag-of-convenience operations have continued because, although it is internationally accepted that there must be a "genuine link" between a vessel and its country of registry, up to the present only certain elements of the link have been identified. The Ad hoc Working Group 7/ has now identified several elements additional to those previously identified which it stated are "normally relevant" when considering whether or not a genuine link exists between a vessel and its country of registry 8/ what is now needed is international acceptance of these elements as being indispensable to the existence of a genuine link, so that action could be taken gradually to restrict and ultimately phase out flag-of-convenience operations which are adversely affecting the development of the national flag fleets of developing countries. A gradual closure of the open registers would also enable countries at present offering open-registry facilities to benefit from an increasing participation in the operation of ships registered under their own flags.

6. Developing countries have two valid grounds for claiming increased participation in shipping: first, they are trading nations which generate cargoes, and second, they can operate more economically than the traditional maritime countries can operate under their own flags. For many developing countries, entry into bulk shipping would offer a logical avenue for industrial development since it is a direct downstream activity for those countries which serve as quarries, mines and wells for the extractive industries of developed

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7/ Cf. footnote 3 above.

8/ See paragraph 1(b) of the resolution adopted by the Ad hoc Working Group (document TD/B/C.4/177, annex).

countries; it would offer the developing countries a direct possibility for evolving from their present passive role as suppliers of natural resources to an active role contributing to the economy and the balance of payments. Whether or not particular developing countries wish to expand into bulk shipping is a matter for them to determine for themselves, but a refusal of their claims to participate could only be interpreted as a determination to maintain existing institutional arrangements and to prevent developing countries from developing in accordance with the new international economic order.

7. There is, therefore, a need for new mechanisms that would ensure reorientation of the international relations in shipping so that developing countries can achieve increasing participation in the world bulk fleet. Fragmented measures on some aspects only are not sufficient: a comprehensive set of measures is needed.

Chapter II

REVIEW OF PAST PROGRESS

8. Although the bulk sector of shipping accounts for roughly 70 per cent of the world cargo tonnage loaded (about 54 per cent on tankers and about 24 per cent on bulk carriers), past efforts of developing countries to build up their merchant fleets have been concentrated in the liner sector, which accounts for only about 30 per cent. This is attributable to a number of factors.

9. A considerable amount of bulk cargo is transported by "industrial carriers", i.e. vertically integrated industries which own or control tankers and bulk carriers, and to a large extent developing countries have not been directly involved as users of bulk vessels. In so far as they have been direct users, bulk shipping has always been relatively satisfactory, as regards both the services provided and the rate levels. Bulk shipment (i.e. shipment of complete ship-loads of homogeneous products between a limited number of ports) is a technically efficient operation and relatively inexpensive. On the other hand, liner shipping has been a constant source of dissatisfaction, especially as regards rate levels. Liner shipment (i.e. the shipment of small consignments of heterogeneous cargoes between a large number of loading and discharge ports) is a relatively inefficient and expensive operation in the technical sense. Moreover, in ocean trades, rates are determined by price-fixing cartels - the liner conferences. Liner shipping has therefore come to be regarded as the sector requiring action in the first instance and many developing countries have reacted by building up liner fleets in the expectation that ownership of their own liner vessels would reduce rate levels, or at least bring home a share of the profits commonly attributed to liner operations. Some developing countries have also been attracted to investments in liner shipping by the high levels of freight rates and consequent expectations of foreign-exchange savings and earnings.

10. At the same time, certain factors have tended to repel developing countries from becoming involved in bulk shipping. Unlike liner vessels, which sail on fixed routes, most "independent" tankers and bulk carriers (i.e. those not owned by the vertically integrated industries) engage in world-wide trading away from their home countries. World-wide trading has appeared relatively complex to many countries, compared with the simplicity of operating a liner service to and from the home country, carrying cargo generated by the country's trading activities, and in respect of which the country may claim some natural rights to participate in the carriage.

11. The tankers and bulk carriers operated by industrial carriers often sail on set routes to or from developing countries, but these countries have often found themselves powerless to intervene in vertically integrated operations. For example oil-producing countries have purchased tankers but have been unable to obtain employment for them because the transnational oil companies control transport, distribution and marketing.

12. Furthermore, although many developing countries ship bulkable quantities of particular commodities, they nevertheless often rely upon liner services for historical reasons dating from an earlier period when the total quantities were insufficient to justify bulk shipments. In such instances, the countries have usually concentrated on trying to improve the liner system rather than on trying to switch to more economical bulk methods, since a changeover to bulk shipping would seem a change not only in shipping methods but also in the marketing and distribution systems inherited from the colonial era, and this would involve more complex policy decisions. Developing countries concentrated their efforts in the international forums in securing - and succeeded in securing - recognition of their rights to participate in the liner trades.

13. For all these reasons, most developing countries which have acquired fleets have entered the liner trades rather than the bulk trades. For the most part they have followed the pattern set by the traditional maritime nations in whose trades they have sought to participate: they have ordered conventional general cargo vessels; they have followed the same trade routes, become members of the same liner conferences, and generally charged rates fixed by the liner conferences in which the traditional maritime nations hold the majority of the voting power. The liner companies of developing countries have undoubtedly ensured a more sympathetic hearing by the liner conferences of the problems besetting those countries and more favourable rates for specific commodities in most trades, and they have brought home some of the ship-owning profits which would otherwise have been earned by the traditional maritime countries. Nevertheless, the problem of reducing rate levels still calls for attention.

14. In the future the developing countries will need to formulate a policy which will ultimately give them the liner services they need as ship-users and, at the same time, provide scope for national flag participation, taking into account the fact that participation usually involves joining the very cartels whose activities have traditionally been regarded as contrary to the interests of developing countries.

15. Concurrently, the traditional maritime nations, which suffer from high labour costs, have been divesting themselves of labour-intensive general cargo vessels in their liner trades and investing in capital-intensive container ships. Since container vessels are capable of a higher number of round voyages per annum than are general cargo liners, the developed market-economy countries (which own almost all of the containerships in the world fleet) have a higher cargo-carrying capacity in the liner sector than their fleet percentage would suggest. Equally, the 15 per cent share which developing countries hold in the general cargo fleet gives an exaggerated impression of their share in the world cargo-carrying capacity.

16. At the same time, the high crew costs of the traditional maritime nations have adversely affected their ability to participate in the bulk trades. In the liner trades a country may sometimes off-set high crew costs by efficient cargo-handling methods which reduce the amount of time and labour engaged in stevedoring activities, thus maintaining its competitive position against countries with lower crew costs. But the bulk trades are usually operated on

on f.i.o. basis (which means that the stevedoring operations are undertaken by the shipper and consignee) so that no such off-setting is possible. In the liner trades, too, the high-cost countries have been shielded from lower-cost competition by the conference cartel arrangements, but in the bulk trades they have no such protection. Faced with the direct impact of their high crew costs, and the increasing difficulty which they are having in persuading men to go to sea whatever the wages, the richer countries have been forced to look for cheaper and more available labour. Since capital and voyage costs are practically the same for vessels of all flags, shipowners operating under different flags can only increase their competitiveness by reducing their daily operating costs (of which crew costs are the biggest item). 2/

17. The laws of most maritime countries restrict, or even prohibit, the employment of foreigners on national flag ships, for reasons of safety and defence, and because of the difficulties of operating such a small community unit as a ship with mixed nationalities.

18. In this situation it might have been expected that corporations of the developed market-economy countries would have established subsidiary or affiliated shipping companies in countries with a supply of cheaper labour. This would mean setting up joint-ventures in developing countries, renouncing some of their exclusive control and allowing a degree of participation by the countries concerned. This undoubtedly would have occurred but for the existence of several countries offering open-registry facilities. These open-registry countries are prepared, for a small fee, to "sell" their flags to shipowners of other countries without asking in return for any of the powers of control or participation which are normally exercised and enjoyed by countries under whose flags ships are registered.

19. The fleets of the open-registry countries offering "flags of convenience" have grown from 21.6 per cent of the world dead-weight tonnage at the beginning of the 1970s to 31.1 per cent in mid 1977. During the same period, the percentage of vessels registered in the developed market-economy countries declined from 66.7 per cent to 55.8 per cent, indicating a steady transfer of operations. In mid 1977, 56 per cent of the open-registry fleet consisted of tankers, and a further 27 per cent were bulk carriers. Only 12 per cent of the open-registry fleet consisted of general cargo vessels, and a proportion of these would have been employed in the bulk trades. The only vessels which can clearly be identified as liner vessels - i.e. container ships - accounted for only 0.3 per cent of the open-registry fleet.

2/ The daily costs for a 200,000 ton tanker amount to $ 5,400 under the Swedish flag, but only $ 4,100 under a flag of convenience. Source: "Shipping", brochure issued by the Swedish Shipowners' Association, 1978. The UNCTAD secretariat is preparing a report on the subject of comparative labour costs, which will be published under symbol TD/222/Supp.4

20. Ship-owners who have resorted to flags of convenience have not been motivated solely by their labour problems but also by a desire to evade or avoid taxation, to have complete freedom in utilising their cash flows, and to avoid various national laws and controls which they regard as irksome. However, the fact that the major transfer of operations has occurred in the bulk sector (where, as already noted, the impact of high crew costs is especially severe owing to the lack of off-setting possibilities in f.i.o. operations and the lack of conference price-fixing arrangements) suggests that labour problems have played a prominent role in motivating the transfer from the flags of the richer countries, and in the absence of open-registry countries developing countries might be expected to benefit from a greater participation in bulk shipping.

21. Developing countries have two valid grounds for claiming increased participation in bulk shipping. First, countries may claim some rights to participate in the transport of cargoes which are generated by their own foreign trade - just as they have claimed, and obtained recognition of, the right to participate in the carriage of liner cargoes generated by their trading activities. Second, those countries which supply the labour needed to man tankers and bulk carriers may reasonably claim a greater participation in bulk shipping operations than they currently have as mere providers of ship-board labour to foreign-flag vessels.

22. Some spokesmen from the traditional maritime nations oppose any claims to transport bulk cargoes by the national vessels of the trading countries concerned on the grounds that any such interference with the free market would increase transport costs. These arguments are valid with regard to certain segments of the bulk trades (for example, in the spot market, where insistence upon a particular flag could involve positioning costs and deprive a country of the use of a vessel already in position), but defective in ignoring the substantial segments of the bulk trades which do not come on to the open market and which are handled by vessels in constant employment on regular shuttle services. Cargo carried by operations of the latter type could be shipped by national-flag vessels without creating undue problems. Hitherto, arguments on this issue have been advanced mainly in terms of assertions and counter-assertions: what has been needed is a statistical examination of the bulk trades to determine the actual involvement of developing countries in bulk cargo trades, and to determine the extent to which their bulk cargoes are being handled by vessels in regular employment, as distinct from irregular sailings by vessels operating on the world-wide market.

23. Equally, the developing countries which are at present supplying ship-board labour for flag-of-convenience vessels engaged in world-wide trading could increase their participation in such operations without disrupting the open market.

24. In considering the possibilities for fleet expansion by the developing countries the tanker and bulk carrier sectors obviously deserve priority, as these are the sectors in which progress has been lagging. However, attention also needs to be given to liner fleet development. It is necessary to examine not only the possibilities for increasing participation but also for holding down rate levels, and to examine whether it would be desirable for developing countries to follow the industrialized countries in switching to container operations.

Chapter III

LINER FLEET DEVELOPMENT

25. Policies relating to liner fleet development need to be formulated in order to obtain economical services and to extend participation by national-flag vessels.

26. The high level of liner rates is partly attributable to the price-fixing arrangements of the liner conferences which national lines are impelled to join, but it is also attributable to the high level of costs. While liner costs will inevitably be higher than costs in the bulk trades because of the very nature of liner operations, the fact remains that in many, if not most, liner trades costs are unnecessarily high as a result of overtonnaging, duplication of services, and the use of liner services for commodity movements which could be handled more economically by bulk methods. This is an area in which action by developing countries is both possible and feasible.

27. In most liner conferences traditional practice has been to conceal, rather than to explore, the operational wastage caused by overtonnaging and duplicated services since, in the absence of pressure from effective shippers' organizations, it has been simpler to pass on the costs in the form of higher freight rates than to eliminate the inefficiency by rationalizing services. Developing countries can reverse this trend by insisting upon an open examination of the cargo services actually required in terms of the tonnages moving and the arrival and departure frequencies needed, and by pressing for services to be rationalized so as to match the actual requirements. Where the cargo tonnages are insufficient to fill vessels of each and every trading country, while observing the sailing frequencies required for trading purposes, the obvious solution lies in the institution of joint sailing arrangements whereby neighbouring countries can ensure the use of each others' vessels on successive sailings. This applies to developed as well as to developing countries.

28. At the same time it is essential to investigate the possible use of bulk techniques for the movements of commodities which have been traditionally shipped by liner services. Such investigations are being facilitated by the rapid strengthening of commodity groups, which, following the impetus given by the Integrated Programme for Commodities, have become much more conscious of the desirability of better organization among their members and of the possibilities for collective bargaining on the open market to obtain cheaper transport services. Several successful moves have already been made in this direction and commodity groups have found that, whether or not they actually move outside the liner system to adopt bulk methods, they have increased their bargaining powers in dealing with the liner conferences and, in the process, have forced liner operators to become much more cost-conscious.

29. A conflict may arise between a developing country's shipowning interests and its interests as a ship-user if its national shipping line persists in operating its vessels as traditional liners, while at the same time a commodity group within the country decides that the preservation of its market position calls for a lowering and stabilization of freight rates which could be achieved

only by switching to bulk methods. Such a conflict may be avoided, however, if the government is constantly re-assessing the types of shipping services which the country needs. Many of the commodities being shipped from developing countries have "out-grown" the traditional liner services which were developed to handle smaller quantities in colonial days, and many of the general cargo vessels which developing countries are currently operating in the liner trades may perform more useful services for their countries if switched to bulk (or "neo-bulk") services to cater for commodity movements which cannot withstand the high freight rates applicable to frequent, multi-port, liner services. This applies particularly to primary products which have to compete against synthetics on the overseas markets. A re-assessment of a country's frequency needs as regards imports may well reveal that imports also could be adjusted to meet the sailing frequencies determined by bulk or neo-bulk exports, thus providing economical employment for vessels in both directions.

30. At the other extreme, in so far as a developing country needs fast, frequent liner services with short transit times, serious consideration should be given to the operation of container vessels, this being one segment of the liner trades in which the developing countries are seriously lagging behind the traditional maritime countries. While developed countries might be expected to own the major percentage of the world container fleet (since most of the containerized traffic moves from one developed country to another), there is no valid reason why container services between developed and developing countries should be dominated by operators from the traditional maritime nations.

31. In establishing container services it is essential that developing countries should relate their plans to their actual needs and not, as some of the industrial countries have done, build vessels which can only be filled by loading containers with cargo which could be shipped more economically by neo-bulk services. Shippers of low-value neo-bulk items which cannot stand high freight rates should not be forced to use containers.

32. Developing countries cannot look to the traditional maritime nations to provide them with a lead for liner fleet development because too many vested interests are involved. A country which seeks participation merely by following leads established by the traditional maritime countries may find that it gains the participation it seeks yet fails to provide the services which its trading interests need.

33. Developing countries, therefore, need to make their own assessments of the types of liner services which should be provided.

Chapter IV

BULK FLEET DEVELOPMENT

A. Competition in bulk shipping

34. Before discussing what steps could be taken to increase the participation of the bulk fleets of developing countries it is first necessary to examine the manner in which the bulk fleets of the traditional maritime countries obtain employment. As noted in Chapter II some vertically integrated industries ('industrial carriers') own vessels to transport cargoes which they themselves control. Otherwise shipowners obtain cargoes either by 'private fixtures' (i.e. by directly negotiating with cargo-controlling interests) or by 'fixing' vessels on the open market through the shipping exchanges. Fixtures of either type can secure employment for single voyages, a series of consecutive voyages, or for specified periods of time, though most long-term contracts of affreightment are negotiated privately. Industrial carriers normally own insufficient tonnage to cover all of their requirements and obtain the balance by time charters (normally to cover long term purchases or sales) and voyage charters (normally to cover spot purchases and sales).

35. The tonnage covered by fixtures reported on the open market amounts only to around 10 per cent of the total tonnage carried by non-liner methods. The remaining 90 per cent is carried by industrial carriers or under private fixtures, but the relative role of industrial carriers and shipowners operating under private fixtures is not entirely clear. It is known that the transnational oil companies own 40 per cent of the active world tanker fleet and control another 34 per cent through time charters, but no comparable figures are available for the world bulk carrier fleet.

36. The term "private fixtures" covers several different types of arrangements, the relative weights of which are unknown. In some instances, parties negotiate fixtures more or less at arm's length, each being influenced partly by knowledge of the rates and conditions obtainable on the open market, and partly by past experience of each other as business partners. In other instances, the companies which own the cargo are under government pressure to use carriers of a particular flag, in which case the open market conditions are of very limited relevance to the negotiating parties.

37. On the open market bulk shipping is highly competitive in the sense that shipowners compete by their ability to under-cut their competitors and by their records of efficiency as carriers. The same considerations apply to bulk shipping operated under the types of private fixtures which are influenced by the open market. As already noted, the device commonly used by shipowners from countries with high cost levels to remain competitive is to register their vessels under flags of convenience, whereby they gain not only the use of cheaper labour but also other financial advantages such as freedom from taxation.

38. Otherwise, however, it would appear that bulk shipowners compete for employment to a large extent by competing to secure some sort of tie over cargo movements, either directly or by entering into contractual arrangements with parties who control tied cargoes. The cargoes of industrial carriers are clearly "captive cargoes", as are many of the cargoes covered by private fixtures between affiliated companies, but even where cargoes are not actually owned by the shipowner or an affiliate, an owner may nevertheless secure an indirect tie on a cargo movement by long-term contractual arrangements. In fact, shipowners often obtain finance for newbuildings by virtue of the fact that they have tied the cargoes under long-term arrangements. In certain segments of the bulk trades this aspect appears to be vital: shipowners who can operate efficiently and economically may still fail to gain employment for their vessels if they are "shut out" from the contractual and other arrangements which tie the cargo. 10/ Secure employment reduces operating costs, because a shipowner with guaranteed employment can secure much better terms for financing the purchase of a vessel and reduce his management costs.

39. Developing countries seeking to increase participation in the carriage of bulk cargoes generated by their own trade would logically start with those cargo movements which offer constant employment for bulk carriers or tankers, rather than with cargoes which are carried by irregular sailings of vessels employed in world-wide trading, and it would appear that efforts should be concentrated on examining the manner and extent to which such cargoes are at present tied to foreign enterprises. At the present time, many of the natural resources of developing countries are being exploited under government contracts which leave shipping rights in the hands of the concession-holding foreign company. This applies particularly to the oil-producing developing countries. Similarly, many developing countries are importing petroleum and other bulk items under contracts which leave transport arrangements in the hands of the supplier companies. Developing countries could well examine the possibilities, when renewing or re-negotiating such contracts, of including tie-clauses to secure a reasonable portion of such cargoes for carriage in national flag vessels. They could then follow the tactics of the shipowners of developed countries in basing their bulk fleet expansion upon tied cargoes.

40. In identifying appropriate cargo movements it is necessary to identify not only those which actually offer, but also those which could offer, constant employment. Many bulk movements, especially in the petroleum trades, appear to be appropriate for regular shuttle services, but are in fact being wholly or partly served by vessels engaged in irregular world-wide trading. It is possible that the trading patterns of such vessels are determined not by factors affecting cargo, but by the owners' preference for dry-docking in particular ports and for crew changes (although air transport is being used increasingly for crew changes). National flag vessels, employing national crews, and using national or regional dry-docking facilities may be able to operate regular shuttle services. Such matters need to be investigated.

10/ The manner in which tanker cargoes are controlled is described in TD/222/Supp.3 "The maritime transport of hydrocarbons". It has not yet been possible to compile similar information on the control of dry bulk cargoes.

41. Traditional maritime circles question whether developing countries could operate tankers and bulk carriers efficiently as traditional operators. However even if the traditional maritime countries' fleets are operating more efficiently there is no evidence to suggest that the benefits of this extra efficiency are being passed on. A transnational oil company, for example, may time-charter a tanker at world market rates, but sell the petroleum to a developing country at a lump-sum price which includes the price of the oil and insurance and an inflated price for transport. Similarly, the f.o.b. prices paid to developing countries for exports do not necessarily reflect the low freight rates available on tramp's market.

42. However, there appears to be no substantial reason why developing countries could not operate tankers and bulk carriers economically. Developing countries can supply ship-board labour at wage levels below those prevailing in developed countries, and in some instances below the levels prevailing on flag-of-convenience vessels. Furthermore, in many respects they need less expertise to operate tankers and bulk carriers, particularly for bulk operations under long-term contracts, than they need for liner operations. The efficiency of a liner operation depends very largely upon the efficiency of voyage planning and cargo handling, which require a high level of expertise, whereas in operations under f.i.o. conditions the consignor and consignee take care of loading and discharging, and voyage patterns are much simpler. The one competitive disadvantage which developing countries would inevitably suffer would be their inability to compete with the tax and other financial advantages enjoyed by owners operating under flags of convenience.

43. This disadvantage (which equally affects the national flag fleets of developed countries) calls for restraint of activities of the open-registry fleets. This would mean the loss of their tax-free advantages, but there is no evidence that these were ever passed on to shippers anyway.

44. Developing countries, which have valid claims to increased participation in bulk shipping by virtue of their role as suppliers of ship-board labour, have even stronger reasons for calling for the ultimate closure of open registers. In fact, the closure of open registers is the only factor likely to induce the shipowners of the richer countries to transfer some of their investments in order to establish shipping companies in the developing countries which can supply ship-board labour.

45. The open-registry fleets constitute a phenomenon which has built up during the past two decades, and it would be unrealistic to expect any sudden closure of open registers. Nevertheless, it would not be unreasonable for the countries which are promoting their national flag fleets to press for a gradual closure of the open registers over a period of years. To achieve a closure, in practical terms it would be necessary to reach world-wide agreement on the necessity for a vessel to contribute to the national economy of the country of registry, for countries of registry to have an equitable participation in the beneficial ownership of vessels, and for such countries to be entitled to employ their nationals on board vessels and to include the revenues and expenditures, as well as sales and purchases of vessels, in their national

balance-of-payments accounts. 11/ Furthermore, it would probably be necessary to secure international agreement to "freeze" existing open registers and to take punitive action against any country trying to establish a new open register, on the understanding that the countries at present offering open-registry facilities would close their registers over a period of years while gradually increasing their demands for participation in beneficial ownership and employment rights.

46. The closure of open registers is, however, a long-term measure. In the immediate future the possibilities for bulk fleet expansion depend upon an examination of existing bulk cargo movements. Dry bulk and tanker cargoes must each be examined in order to determine the involvement of developing countries.

B. Dry bulk cargoes

47. The cargoes carried by dry-bulk carriers consist mainly of five commodities: iron ore; coal; grain 12/; phosphate; and bauxite/alumina. Together the five "major bulks" (as these are known) amounted to 646 million tons in 1976 (the last year for which figures are available) and accounted for 78 per cent of all cargoes carried by bulk carriers, and for 19 per cent of all world cargoes. The remaining 22 per cent of cargoes carried by bulk carriers (amounting to 5 per cent of world cargoes) consists of about 15 "minor bulk" commodities 13/ which are sometimes shipped by the full ship-load in bulk carriers and sometimes shipped either as liner cargo or as full loads on general cargo vessels. In 1976, the minor bulk commodities shipped on bulk carriers amounted to 178 million tons.

48. To determine which of these bulk movements might form an appropriate base for developing the bulk carrier fleets of developing countries, data have been extracted from 1975 and 1976 trade data on all movements of the five major bulk commodities from or to developing countries which amount to 100,000 tons per annum or more. Annex I 14/ lists the developing countries, commodities and tonnages, and trading partners.

11/ On this aspect, see the resolution adopted by the Ad hoc Intergovernmental Working Group (TD/B/C.4/177, annex).

12/ In this context, "grain" comprises wheat, maize, barley, oats, rye, sorghum and soya beans.

13/ Manganese ore, mineral sands, raw sugar, scrap, pig iron, gypsum, coke, salt, timber, sulphur, cement, iron pyrites, steel, non-ferrous ores, fertilisers.

14/ See TD/222/Supp.2 (provisionally issued as document UNCTAD/SHIP/178).

49. The existence of a cargo flow of 100,000 tons or more does not in itself indicate the existence of a regular bulk service since much depends upon the sizes of the vessels, sailing frequencies and distances, but generally speaking movements of less than 100,000 tons are likely to be served by occasional sailings rather than by regular shuttle services, (though exceptions may occur on short-haul routes, for example, within the Mediterranean). This figure has, therefore, been selected as the lower limit for the purpose of arriving at a preliminary global estimate of the involvement of developing countries in regular shuttle movements of the five major bulk items.

50. Annex I shows that 52 developing countries and territories are involved in substantial movements of the major bulk dry cargoes: 15 as exporters only, 19 as importers only, and 18 as both exporters and importers. An even greater number would be involved if the movement of minor bulk items by bulk carriers were taken into account.

51. As regards exports, the global position can be summarized as follows:

Exports of developing countries	Tonnages ('000) imported by categories of trading partner countries			Total tonnages
	Developing countries	Developed market-economy countries	Socialist countries of Eastern Europe	
Iron ore	2,000	146,900	6,200	155,100
Coal	160	-	-	160
Grain	2,608	2,482	702	5,792
Bauxite/alumina	110	20,701	1,986	22,797
Phosphate rock	1,600	17,100	5,000	23,700
Totals:	6,478	187,183	13,888	207,549

52. The global position as regards imports is as follows:

Imports of developing countries	Tonnages ('000) exported by categories of trading partner countries			Total tonnages
	Developing countries	Developed market-economy countries	Socialist countries of Eastern Europe	
Iron ore	2,000	600	-	2,600
Coal	160	3,830	1,660	5,650
Grain	2,608	28,785	-	31,393
Bauxite/alumina	110	335	-	445
Phosphate rock	1,600	2,000	-	3,600
Totals:	6,478	35,550	1,660	43,688

53. In total, therefore, developing countries are involved in substantial movements of the major dry bulk items, amounting to 201 million tons per annum as exporters, 37 million tons as importers, and 6.5 million tons as both exporters and importers.

C. Tanker cargoes 15/

54. Tanker cargoes, which account for about 54 per cent of total world seaborne cargoes, consist of two main items: crude petroleum and petroleum products. In 1976, shipments amounted to 1,418 million tons of crude oil, and 260 million tons of oil products.

55. The fourteen developing countries which constitute the world's major oil producers 16/ exported 91 per cent of the total crude oil carried by sea in 1976 while about another 12 developing countries which are minor exporters of crude oil 17/ exported a further 4 per cent.

15/ Further data on this topic is being published in "The maritime transport of hydrocarbons" (TD/228/Supp.3), a report being prepared by the UNCTAD secretariat.

16/ Algeria, Ecuador, Gabon, Indonesia, Iran, Iraq, Kuwait, Libyan Arab Jamahiriya, Nigeria, Oman, Qatar, Saudi Arabia, United Arab Emirates, Venezuela.

17/ Angola, Brunei, Brazil, Congo, Egypt, Malaysia, Mexico, Netherlands Antilles, Peru, Syrian Arab Republic, Trinidad, Tunisia.

56. The situation of these oil-exporting countries in relation to world exports of crude oil is fairly well documented and does not call for detailed discussion in the present context: the global situation in 1975 can be summarized as follows:

Exports of developing countries	Millions of tons imported by categories of trading partner countries				Total tonnages
	Developing countries		Developed market economy countries	Socialist countries of Eastern Europe	
	14 major producers	Others			
14 major producers	1.0	204.3	1,114.8	18.3	1,338.4
Approximately 12 minor exporters	-	7.9	50.9	0.8	59.6
Totals:	1.0	212.2	1,165.7	19.1	1,398.0

57. Annex II 18/ gives estimates of the seaborne imports of crude oil by developing countries in 1975, together with estimates of the tonnages imported from different supplier countries. These indicate that 55 countries 19/ imported a total of 206 million tons, importing 91 per cent (187.8 million tons) from the major oil producers, 0.6 per cent (1.2 million tons) from other developing countries, 4 per cent (7.7 million tons) from socialist countries of Eastern Europe, and 0.1 per cent (250,000 tons) from developed market-economy countries. The suppliers of about 4 per cent of their imports are unknown.

58. In so far as suppliers are known, it may be said that 35 of the above countries imported from a single supply area, 8 from 2 areas, 6 from 3 areas, and 4 from 4 areas. Subject to more detailed examination, many of these crude oil import movements could well provide an appropriate basis for operating national flag tankers in regular employment.

59. Although export and import figures cannot be completely reconciled, it appears that developing countries are involved in crude oil movements in the region of 1,185 million tons per annum as exporters, 213 million tons as importers and 8 million tons both as exporters and as importers.

18/ See TD/222/Supp.2 (provisionally issued as document UNCTAD/SHIP/128).

19/ This figure excludes Bahrein, which occupies a special position since it is basically an exporter of oil products which it refines from crude oil imported from neighbouring countries. Some other countries and territories also perform a similar function but, unlike Bahrein, they are located away from the sources of production.

60. Movements of oil products are more difficult to identify than those of crude oil on account of the scarcity and unreliability of statistical data. Except for some of the major movements involving developed market-economy countries, it is difficult to identify trading partner countries, to separate seaborne from landborne movements, and to isolate tonnages exported as ships bunkers or aircraft fuel. The product trades are more complex than the crude oil trades because products are exported not only by oil producers but also by non-producing countries that possess refineries. The term "petroleum products" embraces more than ten sub-items and importers often have to draw their supplies from different sources, so that annual movements are not only much smaller than those of crude oil, but more fragmented.

61. Annexes III and IV 20/ list available data on the exports and imports of petroleum products by developing countries. The following table summarizes the position as regards the main exporting and importing countries:

Groups of developing countries	Exports (million tons)	Imports (million tons)
14 major oil producers plus Bahrein	81.3	8.0
8 countries each exporting more than 1 m tons*	86.2	
11 countries each importing more than 1 m tons*		34.9
36 countries each importing from 0.2 to 1 m tons		16.8
Total (66 countries)	167.5	59.7

* Netherlands Antilles and Singapore are included in each of these groups.

20/ See TD/222/Supp.1 (provisionally issued as document UNCTAD/SHIP/128).

62. The remaining exports and imports listed in annexes III and IV appear unlikely to provide a basis for regular national flag tanker operations, at least on the part of individual countries, though further examination may indicate some scope for joint tanker operation by neighbouring countries which collectively import substantial quantities, and in some instances small countries located near sources may be able to keep small tankers in continuous employment. For present purposes it is assumed that the best prospects would lie with the 68 countries indicated above. On the assumption that about 70 per cent of the imports (i.e. 41.8 million tons) were supplied by developing countries (which would be in accord with global figures), the 68 developing countries appear to be involved in movements of 125 million tons as exporters, 18 million tons as importers, and in movements of around 42 million tons both as exporters and as importers.

b. Tentative assessment

63. As trading nations, developing countries are involved in annual shipments of around 1.8 billion tons of bulk cargoes which, subject to more detailed examination, may provide regular employment for tankers and bulk carriers on set routes, and hence opportunities for bulk fleet expansion by developing countries by virtue of their positions as trading nations. Details (in million tons) are as follows:

Bulk cargoes of developing countries	Exporters only	Importers only	Exporters + Importers	Totals
5 major dry bulk items	201	37	7	245
Crude oil	1,185	8	213	1,406
Petroleum products	125	18	42	185
Totals:	1,512	63	261	1,856

64. In considering claims of developing countries to participate in the carriage of bulk cargoes generated by their trade it is also necessary to consider the claims of trading partner countries. But it must be noted that the main partner countries in the bulk trades are the developed market-economy countries which, as noted above, are becoming increasingly incapable of operating bulk fleets economically under their own flags and which can only continue bulk operations by registering their vessels under flags of convenience. If, therefore, open registers were to be closed such countries might not press claims to carry cargoes on national flag vessels, but might be content to leave transport in the hands of developing trading partner countries which could perform the task more economically.

65. Allowing for the fact that, on average, bulk vessels carry 4 to 5 tons of cargo per dwt per annum, the tonnages listed above would require a bulk fleet with a capacity of some 350 to 400 million tons dwt, which is over ten times the dwt capacity of the bulk fleets which developing countries owned in mid 1977. Therefore, even allowing for the fact that closer examination may reveal that some of the cargo movements are unsuitable for regular vessel employment, and taking into consideration claims to participate in carriage by trading partner countries, developing countries would appear to have abundant scope for expanding their bulk fleets by virtue of their position as trading nations, if only they could secure a greater degree of control over cargo movements.

66. The above assessment takes no account of the possibilities which would become available to developing countries by a closure of the open registers for participating in the cross-trading activities of the world-wide trading fleet, whose operations are necessary to transport cargoes which cannot maintain vessels in regular employment. In this sector, too, the potential scope for expansion is abundant, having regard to the fact that the present open-registry fleet is five-and-a-half times the size of the present bulk fleet of developing countries.

Chapter V

FINANCIAL ASPECTS

67. During the early part of the 1970s, finance was an acute problem for developing countries seeking to establish or expand their merchant fleets, and much of the effort of developing countries was directed towards easing the terms of credit. 21/ At that time, prices were high both for new and for secondhand vessels, and suitable financial credits were equally difficult to obtain for the purchase of new or secondhand ships.

68. As from the middle of the decade, the world recession led to a surplus of shipping, and this in turn led to a marked fall in the prices of secondhand vessels, especially of tankers and bulk carriers. However, the recession also led to a surplus of shipbuilding capacity and, notwithstanding the availability of good secondhand vessels at low prices, the developed market-economy countries with shipyards have been endeavouring to stimulate the building of new ships in order to keep their yards employed. The net result is that it is now easier for developing countries to obtain finance for the purchase of new ships than for the purchase of secondhand ships at low prices. 22/

69. Finance for fleet development can take the form of commercial credits or of development aid. Commercial terms are still not suitable for developing countries and need to be eased. The terms available under development aid are considerably more favourable, but such aid is confined almost entirely to the purchase of newbuildings, the prices of which are higher than those of second-hand vessels. The major beneficiaries of such aid programmes are thus the shipyards of the donor countries rather than the merchant fleets of the "recipient" developing countries, and there is a clear need for aid funds to be made available for the purchase of secondhand vessels.

70. In numerous instances, however, it is apparent that lack of finance for fleet development is primarily attributable to the inability of the country concerned to meet some of the essential pre-conditions to obtaining finance, such as the lack of legislation which would enable registration of a ship subject to a mortgage.

71. Equally important is the ability of the borrowing country to obtain secure employment for the vessel, and thus to provide some assurance regarding its ability to meet loan repayments. In the liner trades the Code of Conduct for Liner Conferences safeguards the rights of developing countries to participate

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21/ See conference resolution 70 (III).

22/ Report of the Group of Experts on Improved Methods of Financing Ship Acquisition by Developing Countries (TD/B/C.4/179).

in the carriage of cargoes generated by their own trades, but it is still necessary to ensure that these cargoes correspond to the capacities of the vessels being purchased. In the bulk trades no such safeguards exist, and the best way in which a country can satisfy lenders of its ability to meet repayments would be by securing a tie on cargo which would keep a vessel in regular employment. In fact, the question of access to cargoes is quite vital when considering the possibilities of finance.

72. In so far as the gradual reduction of the open registers will create opportunities for developing countries to participate in world-wide trading with tankers and bulk carriers, this development should not require new investments by developing countries equivalent to the full value of the vessels added to their national fleets: rather it should result in a transfer of the investments of transnational corporations in vessels registered under flags of convenience, capital investments by the new developing countries of registry being limited to the amounts needed to cover their equity participation.

73. Spokesmen for the traditional maritime countries often argue that developing countries should refrain from entering the bulk trades on the grounds that current market rates would make the high investments involved unprofitable. However, the current low prices for secondhand vessels reduce the investment needed, and a bulk operation which may be unprofitable for a developed country using a high-cost crew on a ship purchased at a high capital cost may be profitable for a developing country using a low-cost crew on a secondhand vessel purchased at today's low prices. Furthermore, the profitability of bulk operations can only be considered over a period, taking into account the market peaks as well as the troughs.

74. Investment in shipping might also open the way for investment in ship-yard activities in developing countries. With national-flag vessels to provide sufficient business to justify the initial investment, yards can be expected to attract additional business from the owners in developed market-economy countries with high ship-yard costs.

Chapter VI

POLICY RECOMMENDATIONS

75. An examination of the world shipping scene shows that the market mechanisms prevailing in international shipping, especially in the bulk sector, have led to adverse and abnormal developments in maritime transport and in particular restricted the growth of merchant marines of developing countries. Removal of the barriers to the increasing participation of developing countries in the world fleet and modification of the market mechanisms with a view to enabling equitable development of the world merchant fleet are urgently needed.

76. International action to achieve the above objectives, as well as support for the efforts of developing countries in the expansion of their national merchant marines, especially in the bulk sector, are necessary in order to implement the Programme of Action on the Establishment of a New International Economic Order which states, inter alia, that "all efforts should be made to promote an increasing and equitable participation of developing countries in the world shipping tonnage." To this end, a comprehensive set of measures is called for, involving:

(1) Recognition of the rights of developing countries to an equitable participation in the carriage of bulk cargoes generated by their own trade and agreement on the measures needed for the implementation of those rights, including agreement that:

(a) Where bulk cargo movements can maintain tankers or bulk carriers in regular employment between a pair of trading countries, the rights to participate in the transport should be equitably shared;

(b) Contracts for the sale and purchase of bulk cargoes, or for the exploitation of natural resources giving rise to bulk cargoes, should be negotiated (or re-negotiated in the case of existing contracts) with provisions giving the developing country the right to transport an equitable share of cargoes which can keep vessels in regular employment;

(c) Developed trading partner countries that cannot operate national-flag tankers and bulk carriers economically should be urged to yield the major percentage of transport rights to developing trading partner countries which can operate national-flag vessels economically.

(2) Agreement on the principles relating to the economic elements of the genuine link which must exist between a vessel and its country of registry, including agreement that a vessel should not be considered as having a genuine link with its country of registry unless, inter alia:

(a) The operation of the vessel makes a substantial contribution to the national economy of the country;

(b) Revenues and expenditures, as well as the purchase and sale of the vessel, are treated in the national balance-of-payments accounts;

(c) The country has the right to the employment of its nationals;

(d) The country has an equitable share in the beneficial ownership.

(3) Measures to prevent the establishment of new open registers, and to phase out flag-of-convenience operations over a period of years, including action:

(a) By governments to restrain their shipowners from registering any additional vessels in instances where a genuine link (including the elements set out above) is lacking;

(b) By governments of countries currently offering open-registry facilities to refrain from accepting any new registrations in instances where a genuine link (including the elements set out above) is lacking, and to gradually increase their demands for participation in beneficial ownership and employment rights with respect to vessels already on their registers.

(4) Action to ensure the availability of finance for the purchase of secondhand vessels and to ease the terms of credit for new vessels, including:

(a) Action by developed countries to make development aid finance available for the purchase of secondhand ships, and urging OPEC countries to ease the commercial terms of credit for new vessels by increasing loan periods to 12 or 14 years and reducing down-payments to 10 or 20 per cent of the contract price;

(b) The establishment of a consultative group to assess, at regular intervals, the financial needs of developing countries and to recommend measures for the mobilization of financial resources.

(5) Building an institutional framework to promote fleet development and strengthen the economic links in maritime transport between the developing countries, inter alia through:

(a) The closer co-operation of shippers in a region or sub-region in their efforts to improve the control over bulk cargo movements;

(b) Establishment of regional associations of shipowners and joint shipping and shipyard ventures of developing countries whenever it may assure them greater benefits from ships' operations;

(c) Co-operation in the area of ports on a regional and sub-regional basis.

(C) Further work by the UNCTAD secretariat:

(a) To identify in greater detail the opportunities which exist on specific trade routes between developing countries and their trading partner countries for transferring bulk operations to the national-flag merchant fleets of the developing countries;

(b) To examine the policies and attitudes of the developed market-economy countries which constitute the main trading partners of developing countries in the bulk trades;

(c) In co-operation with the Centre for Transnational Corporations, to investigate the controls exercised over bulk cargo movements by transnational corporations;

(d) To investigate the possibilities for a greater involvement of developing countries in the workings of the international charter exchanges.